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SUBJECT: UPDATE ON U.S.-JORDAN FREE TRADE AGREEMENT JOINT  
COMMITTEE FOLLOW-UP

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1. (U) This is an action request. Please see paras 5 and 14.

2. (SBU) SUMMARY: Since USTR hosted Jordan at the annual Free Trade Agreement (FTA) Joint Committee (JC) meeting last June, steady progress has been made on the twelve action items raised. Five action items are completed, from the mounting of a Joint Environmental Forum, to U.S. approval of eight percent Israeli content in QIZ products, to Jordan's lifting of a ban on poultry from the United States. On the remaining JC action items:

-- Jordan continues to stress its strong interest in accelerated tariff reductions under the FTA.

-- Post is pressing the GOJ to lift its ban on U.S.-origin beef.

-- Ministry of Industry and Trade (MOIT) officials are distributing for public comment a concept paper on Rules of Origin and accumulation of content; they plan to submit it to USTR to support combined-content manufactures with other U.S. FTA partners.

-- GOJ trade officials continue to pursue lengthening E1/E2 treaty trader/investor visas to five years.

-- Three JC issues regarding Government Procurement and investment promotion require first actions by Jordan before the U.S. can engage.

Post will continue to report separately on the potential significant barrier to trade raised by Jordan's DAMAN product conformity/pre-shipment inspection program. Embassy will send septel its recommendations on accelerated tariff reductions and other measures to enhance bilateral trade. King Abdullah has raised with A/S Burns and with Charge his interest in accelerated tariff reduction under the FTA and several QIZ issues, outlined in a recent letter from MOIT Minister Hindawi, in order to ensure that Jordan maintains its competitive edge. END SUMMARY.

#### Accelerated Tariff Reductions

3. (SBU) MOIT Minister Ahmed Hindawi on February 7 sent a letter addressed to the Charge emphasizing the importance of the tariffs reduction request for our bilateral economic relations (the request was first made at the JC). Although more than 80 percent of all bilateral tariffs have already been reduced to zero reciprocally under the FTA, some of the potentially highest-earning export items (especially garments) still carry high tariffs under the FTA and will do so until 2010. These garments are now exported under the special Qualifying Industrial Zone (QIZ) arrangement with Israel, whereby products with eight percent Israeli content enter the U.S. duty free. The GOJ wants to give all of Jordan's garment factories a chance for duty-free access to the U.S. market, not just the QIZ factories. Post will fax NEA/ELA a copy of Minister Hindawi's letter, along with post's updated checklist of FTA JC action items.

4. (SBU) We understand that USTR is handling formal consultations on the proposed accelerated tariff reductions.

5. (SBU) ACTION REQUEST: Post would appreciate any update that may be available on the status of this request.

#### Rules of Origin Concept Paper

6. (SBU) Jordan has stated an interest in discussing rules of origin under the FTA Article 16, which stated the two sides would "enter into discussions" on developing interpretive and explanatory materials of those rules. Rules of origin (ROO) define what makes a product a "new or different article of commerce" from Jordan (versus, say a slightly altered product from China which a manufacturer is

trying to re-export under the much more favorable FTA rules).

These essential rules of free trade can enhance already existing comparative trade advantages. USTR has stated its clear intention to engage on R00 but has been waiting for the GOJ's promised concept paper. As the GOJ Ministry of Trade has been preoccupied with regional trade agreements, a Singapore FTA, and upgrading its bilateral trade agreement with Israel, it asked USAID, through its AMIR technical assistance program, to produce a draft technical report. The draft technical report on FTA R00 options was recently completed and the MOIT will use it as a basis for collecting public comments, before preparing a final GOJ concept paper. An MOIT senior official told us that the concept paper should be presented to the USG in March.

17. (SBU) An important dimension of the bilateral R00 discussion will be the accumulation of content across borders as it pertains to the 35 percent domestic content requirement of the FTA. For example, the FTA Rules of Origin (in Annex 2.2) allow manufacturers to apply up to 15 percent U.S. content toward the 35 percent "domestic" content requirement, meaning a Jordanian firm could use American components for an electronic good and then would need only to produce in Jordan 20 percent value added (as defined by R00 on "substantial transformation" into a new product). A clause in the Jordan FTA R00 uniquely allows for discussion of accumulation of content from a "territory contiguous to Jordan" toward the required 35 percent "domestic" content. Since the WTO rules require that all of the countries involved in such accumulation of content have bilateral FTA's, for now only Israel could be considered a partner country of origin for the 35 percent content requirement.

18. (SBU) GOJ officials would like also to extend the discussion on accumulation of content to include other FTA countries in the region, such as Morocco and Bahrain (assuming the latter FTA will be ratified and enter into force). GOJ officials were encouraged by public remarks made by USG trade officials on expanding the bilateral FTAs in the region into a Middle East Free Trade Area (MEFTA), a central feature of which would be such accumulation of content. Finally, although warned last June by A/USTR Novelli that USTR would prefer to limit such discussions to the Middle East, GOJ officials will likely try again to talk about accumulation with other nations with which we both have FTA's, particularly Singapore. A section on Singapore is in the concept paper in its current draft form.

#### E1/E2 Visas

19. (SBU) A senior MOIT trade policy official told us that the MOIT is discussing with the GOJ Foreign Ministry the current status of E1/E2 treaty trader/investor visas, which were provided for in the FTA and are being made available at the Embassy. The Jordanians plan to discuss with other (especially security) agencies loosening the current limitation on validity of the Jordanian equivalent of the E1/E2 visa, now just one year. Their goal in these internal discussions is to arrange to lengthen Jordanian E1/E2-equivalent validity to five years, so that Jordan and the U.S. could then discuss reciprocally issuing multiple-entry E1/E2 visas of five years duration, versus the current single-entry, three-month visa. For now, all action on this issue is with the GOJ. MOIT officials understand that they could now request discussions on a multiple-entry, 12-month visa if they so chose, but so far have indicated their preference to investigate the five-year option first. It is possible that Amman officials and Jordan's Washington embassy are not fully coordinating on this issue.

#### Other JC Issues

10. (SBU) The GOJ ban on beef was imposed after the late-2003 report by USDA of a presumptive case of bovine spongiform encephalopathy (BSE) in a Holstein cow in Washington state. Embassy Amman, working with the regional USDA attache in Cairo, continues to make the case that BSE is contained in the U.S. and that U.S. beef is safe to eat. The latest USG non-paper on BSE is reportedly currently being reviewed in the Ministry of Agriculture and a decision on the ban may be imminent. The Ministry of Agriculture lifted the ban on U.S. poultry late in 2004. In addition to the holding of the Joint Environmental Forum and the USTR decision approving 8 percent Israeli content in QIZ's, Jordan last year finally approved regulations on "sell by" dates on food packaging consistent with WTO standards. On an IPR issue raised at the JC, Jordan last August sent a letter stating it would continue to seek an exception to the Berne Convention regarding translation and reproduction on what it called "proper use" cases (such as xeroxing of excerpts from copyrighted materials for university classes).

11. (SBU) A few issues raised at the JC remain with the Jordanians. On the Government Procurement Agreement, Jordan

continues to contemplate a bilateral GPA, but remains hesitant until the WTO plurilateral GPA negotiations are completed. At the JC, Jordan had also raised possibly changing our Bilateral Investment Treaty so as to refer to the FTA and reflect a more open investment climate than was in place when the FTA was first negotiated. Finally, Jordan had suggested a two-way investment promotion board but has not provided particulars. We continue to reiterate USTR's position that the USG stands ready to engage on these issues when the GOJ is ready.

More on QIZ's

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12. (SBU) MOIT Minister Hindawi's February letter also raised two new issues regarding the Qualifying Industrial Zones that require attention. First, Hindawi noted that the Israel-Egyptian QIZ administrative rules were "more favorable" than those for Jordan and Israel. Although the QIZ Product Approval Procedures on which Hindawi based his assessment were sourced from an Egyptian newspaper, it does appear that the Egyptian system is more streamlined: it is post facto and bases QIZ factory approvals on quarterly data, whereas in Jordan a product rather than a factory must be reviewed based on detailed product specifications and raw input purchase data that all must be pre-approved. It is our understanding that the Israelis want to experiment with this new system, but the Jordanians see it as a "competitive advantage" and they request similar QIZ product approval procedures. Secondly, Hindawi proposed essentially a quadrilateral QIZ, with Jordan, Egypt, and Israel together accumulating QIZ product content for duty-free export to the U.S. Hindawi stated this step would encourage regional economic cooperation.

13. (SBU) COMMENT: King Abdullah has raised with A/S Burns and Charge the points made in Hindawi's letter, in general terms but with a clear intent to speed bilateral engagement on issues he regards as important to keep Jordan competitive. Post will send septel recommendations on accelerating tariff reductions under the FTA and otherwise enhancing trade relations. Under former MOIT Minister Halaiga, who was double-hatted as DPM and hampered by political considerations, these JC issues were not being handled with speed or alacrity. Now with Hindawi at the helm, FTA JC issues may move at a brisker pace. Nonetheless, Hindawi lost by promotion his best and brightest trade negotiator responsible for overseeing complex issues such as rules of origin. Post would like to see the discussion on "contiguous territories" start as soon after the USG receives the ROO concept paper as possible, and is working with Embassy Tel Aviv to recommend possible new approaches to Jordan-Israel trade under the FTA. Concerning Hindawi's point about QIZ product approvals, the perception of unequal treatment is of concern to us. We ask that Washington consider options for providing Jordan a similar arrangement on QIZ product approvals. Hindawi's second point on three-way accumulation of content would require further amendment of the United States-Israel Free Trade Implementation Act of 1985, as amended. We pass it along for consideration by concerned Washington agencies.

14. (SBU) ACTION REQUESTED: Post requests guidance on responding to the two GOJ requests contained in MOIT Minister Hindawi's letter.  
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